

State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE

OFFICE OF THE GOVERNOR AND
LIEUTENANT GOVERNOR

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1988

This report contains recommendations for
improvement in the office's operations.

Major items addressed in this report include:

- ▶ Improving controls over centennial sales
revenue
- ▶ Contracted Services
- ▶ State compliance issues
- ▶ Accounting issues

STATE DOCUMENTS COLLECTION

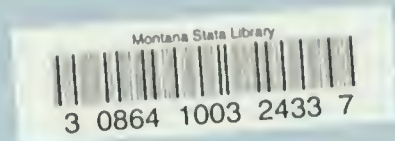
MAY 19 1993

MONTANA STATE LIBRARY.
1515 E. 6th AVE.
HELENA, MONTANA 59620

PLEASE RETURN



Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620



FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1987 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

MEMBERS OF THE LEGISLATIVE AUDIT COMMITTEE

Senator Greg Jergeson
Senator Tom Keating
Senator Tom Rasmussen
Senator Mike Walker

Representative John Cobb, Vice Chairman
Representative Mike Kadas
Representative Robert Pavlovich
Representative Bruce Simon

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLET
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

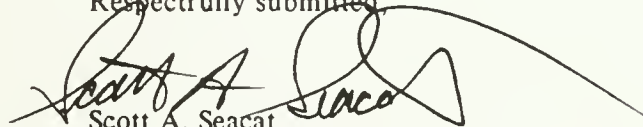
April 1989

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Office of the Governor and Lieutenant Governor for the two fiscal years ended June 30, 1988. Included in this report are recommendations concerning centennial program revenue controls, state compliance issues, contracted services, and accounting issues. The responses of the office are contained at the end of the report.

We thank the Governor, Lieutenant Governor, and their staffs for their assistance and cooperation.

Respectfully submitted,


Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor
OFFICE OF THE GOVERNOR AND
LIEUTENANT GOVERNOR
Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1988

Members of the audit staff involved in this audit were: Mark Barry, Jeane Carstensen, Diane Hulst, and Lorry Parriman.

TABLE OF CONTENTS

	<u>Page</u>
Elected and Administrative Officials	iii
Summary of Recommendations	iv
Introduction	1
Background	1
Centennial Office	2
Cash Controls	2
Royalty Revenue	3
Reporting	3
License Plate Revenue	5
Contracted Services	6
State Compliance	7
Non-General Fund Money	7
Centennial Products	8
Accounting Records	9
Payment of Fire Fighting Costs	10
Independent Auditor's Report and Office Financial Schedules	
Summary of Independent Auditor's Report	11
Independent Auditor's Report	12
Schedule of Changes in Fund Balances for the Two Fiscal Years Ended June 30, 1988	13
Schedule of Budgeted Revenue & Transfers In - Estimated & Actual for the Two Fiscal Years Ended June 30, 1988	14
Schedule of Budgeted Program Expenditures By Object and Fund - Budgeted and Actual for the Fiscal Year Ended June 30, 1988	15
Schedule of Budgeted Program Expenditures By Object and Fund - Budgeted and Actual for the Fiscal Year Ended June 30, 1987	16

TABLE OF CONTENTS (continued)

	<u>Page</u>
Notes to the Financial Schedules	17
Agency Response	19

ELECTED AND ADMINISTRATIVE OFFICIALS
OFFICE OF THE GOVERNOR AND LIEUTENANT GOVERNOR

	<u>Effective</u> <u>January 2, 1989</u>	<u>During the</u> <u>Audit Period</u>
Governor	Stan Stephens	Ted Schwinden
Lieutenant Governor	Allen Kolstad	George Turman
Executive Assistant	Steve Yeakel	Teresa Olcott Cohea
Centralized Services Manager	Mary Jo Murray	Mary Jo Murray

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

Page

Recommendation #1

The office:

- A. Establish procedures to restrictively endorse checks at the time of initial receipt. 3

Agency Response: Concur. See page 19.

- B. Deposit cash on a timely basis. 3

Agency Response: Concur. See page 19.

- C. Maintain adequate segregation of duties over cash. 3

Agency Response: Concur. See page 19.

Recommendation #2

The office:

- A. Establish procedures to ensure licensees report all sales on a timely basis. 5

Agency Response: Concur. See page 19.

- B. Establish procedures to ensure all royalty revenue due the Centennial Office is collected. 5

Agency Response: Concur. See page 19.

- C. Document the system used to account for the royalty sales information. 5

Agency Response: Concur. See page 19.

Recommendation #3

The office perform reasonableness tests on license plate revenue collected from the counties to ensure the proper amount is collected. 5

Agency Response: Partially concur. See page 20.

SUMMARY OF RECOMMENDATIONS
(continued)

	<u>Page</u>
<u>Recommendation #4</u> The office ensure contracted service expenditures are administered in accordance with state law and policy.	7
Agency Response: Concur. See page 20.	
<u>Recommendation #5</u> The office:	
A. Use non-General Fund moneys wherever possible before using General Fund moneys.	8
Agency Response: Concur. See page 20.	
B. Record an adjustment to decrease prior year expenditures in the General Fund and increase prior year expenditures in the Special Revenue Fund for the amount remaining in the Special Revenue Fund appropriation.	8
Agency Response: Concur. See page 20.	
<u>Recommendation #6</u> The office obtain a copy of each centennial product, or change the regulations and application forms to allow for flexibility.	8
Agency Response: Concur. See page 21.	
<u>Recommendation #7</u> The office perform a timely review of SBAS reports to ensure the financial activity recorded on SBAS is in accordance with state law.	9
Agency Response: Concur. See page 21.	
<u>Recommendation #8</u> The office comply with state law regarding the use of the budget amendment process.	10
Agency Response: Concur. See page 21.	

INTRODUCTION

We performed a financial-compliance audit of the Office of the Governor and Lieutenant Governor (the office) for the two fiscal years ended June 30, 1988. The objectives of the audit were to:

1. Determine if the office complied with applicable laws and regulations.
2. Make recommendations for improvement in the management and internal controls of the office.
3. Determine if the financial schedules present fairly the office's results of operations for the two fiscal years ended June 30, 1988.
4. Determine the implementation status of prior audit recommendations.

The eight recommendations in this report address areas where the office can improve management, internal control, financial reporting, and compliance with laws and regulations. Other areas of concern deemed not to have a significant effect on the successful operations of the office's programs have been discussed with management.

In our last audit, for the two fiscal years ended June 30, 1986, we made eight recommendations to the office. Of those recommendations six have been implemented and two have not been implemented. The two recommendations not implemented relate to cash controls and the use of non-General Fund money first. Both are again addressed in this report on pages 2 and 7, respectively.

In accordance with section 5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report.

BACKGROUND

The Governor's Office was created upon acceptance of Montana into the Union in 1889 and is provided for in Article VI of the Montana Constitution. The following paragraphs discuss the functions of the various programs administered by the Office of the Governor and Lieutenant Governor. The office had 61.54 full-time equivalent (FTE) positions budgeted for fiscal year 1987-88.

Executive Office - oversees and directs the activities of the executive branch agencies to ensure responsible and responsive government for the people of Montana. (22.70 FTE)

Lieutenant Governor - performs those duties prescribed by law and those delegated to him by the Governor. The Lieutenant Governor's Office coordinates the state centennial program, serves as the liaison between state and

local governments, and supervises the clearinghouse review process for federal communications. (5.0 FTE)

State Centennial Office - created in conjunction with the Montana Statehood Centennial Commission by the 1985 Legislative session. The purpose of the commission and the office is to encourage the commemoration and celebration of Montana's 100th anniversary of statehood on November 8, 1989. (4.0 FTE)

Office of Budget and Program Planning (OBPP) - assists the Governor in planning, preparing, and administering the state budget; develops and evaluates alternative program plans for providing state government services; and examines methods for improving delivery of services to the citizens of the state of Montana. (16.80 FTE)

Citizens' Advocate Office - provides accessibility to state government for Montana citizens by providing information to citizens and acting as a referral service to state agencies. (1.0 FTE)

Mental Disabilities Board of Visitors - comprised of a five-member board charged with the responsibility of protecting the rights of the mentally ill and the developmentally disabled. (4.06 FTE)

Northwest Power Planning Council - continues development of a 20-year electric energy plan that will provide an efficient and adequate electric power supply for consumers in the Pacific Northwest and encourage conservation and development of natural resources. The council also directs fish and wildlife restoration in the Columbia River Basin and reviews actions taken by the Bonneville Power Administration. The Power Planning Council, created in accordance with Public Law 96-501, passed by the U.S. Congress on December 5, 1980, consists of two members each from the states of Montana, Washington, Idaho, and Oregon. (5.08 FTE)

Mansion Maintenance - maintains the Governor's official residence and provides security coverage for the Governor and his family. (1.90 FTE)

Air Transportation - provides transportation for the Governor and his staff. (1.0 FTE)

CENTENNIAL OFFICE

The two main sources of revenue for the Centennial Office are royalty payments from the sales of officially sanctioned centennial products and sales of centennial license plates collected by the counties on behalf of the office. Problems noted relating to these revenues are discussed in the following report sections.

Cash Controls

During our follow-up of our previous audit recommendation related to cash controls, with which the office concurred, we noted the following weaknesses in the Centennial Office's control over cash.

1. Checks are not restrictively endorsed when received. A secretary receives the checks in the mail. She gives the checks to a data entry person who processes related information and sends them to an individual who restrictively endorses the checks. Montana Operations Manual (MOM) section 2-1210.10 requires restrictive endorsement of all checks at the time of initial receipt.
2. Deposits are prepared no more often than once a week, regardless of the amount of checks and cash. We reviewed the deposit log and noted deposits ranged from \$100 to \$36,000. MOM section 2-1210.20 and state law requires each agency to deposit at least weekly but to deposit daily when receipts exceed \$500. Lack of timely deposits results in lost interest income. When deposits are made, the funds are invested by the State Board of Investments to earn interest for the state's General Fund until they are needed for expenditures.
3. The person responsible for recording quarterly royalty payments also has access to the cash and the office does not prepare a receipt log when cash is initially received to compensate for this weakness in the separation of duties. Without separation of the record keeping function and the cash, the potential increases that loss or misuse of cash would not be detected. MOM section 2-1210.90 recommends that whenever sufficient staff is available a plan to achieve separation of duties should be established.

The absence of these controls over cash increases the potential for loss and theft. Reasons for the lack of controls include the high rate of turnover in personnel in the Centennial Office and the absence of adequate training. We believe the office has sufficient personnel to implement cash controls to ensure checks are endorsed when received, deposits are prepared as required, and an adequate segregation of duties over cash exists. Office officials indicated they are working to correct these problems.

RECOMMENDATION #1

We recommend the office:

- A. Establish procedures to restrictively endorse checks at the time of initial receipt.
- B. Deposit cash on a timely basis.
- C. Maintain adequate segregation of duties over cash.

Royalty Revenue

--Reporting

The Centennial Office receives royalty payments from vendors who have been issued a license to produce, sell, etc. . . officially sanctioned centennial products. We

determined the reasonableness of royalty revenue of \$34,767 recorded in fiscal year 1987-88, and noted the following weaknesses in the system used to account for this revenue.

1. The license agreements require the licensees to submit a sales report and royalty payments within fifteen days of the end of each quarter. The office has no procedures to ensure all reports are submitted on a timely basis or if the reports are submitted at all.
2. The office has no controls to ensure the licensees report all revenue. The office does not perform reasonableness tests on the amount of sales reported and no provision is included in the license agreement to allow the office access to the licensees' records.
3. The office uses a computer program to account for the sales information reported by the licensee. The program multiplies the quantity sold by the price per unit by the royalty percentage to calculate the royalty due. The amount due is compared to the amount remitted on a quarterly and cumulative basis.

We reviewed ten licensee reports and noted six had discrepancies between the amount of royalty due per the licensee sales reports and the amount calculated by the computer program. Reasons for the differences include: different prices used to calculate gross sales, data input on the wrong line, different royalty percentages applied to gross sales, multiplying gross sales for all products by the percentage rather than taking gross sales for each product by the percentage, and differences in rounding. We found no evidence indicating the office resolves the discrepancies.

We also found an example where the spreadsheet did not calculate the difference between total due and total received correctly. Agency personnel agree that the program is not always reliable. The office has an instruction book for the software, but nothing specific to the program. No documentation exists on how the program was written or how it works.

4. The office has no procedures to identify and collect royalty revenue reported, but not received. We found an example of a licensee who reported \$5,299.89 of royalty due, but remitted \$3,764.83. We found no documentation indicating the office followed up to collect the total amount due.

Office personnel indicate the reasons for the poor system of control are related to the high rate of turnover in the Centennial Office and the lack of adequate training.

RECOMMENDATION #2

We recommend the office:

- A. Establish procedures to ensure licensees report all sales on a timely basis.**
- B. Establish procedures to ensure all royalty revenue due the Centennial Office is collected.**
- C. Document the system used to account for the royalty sales information.**

License Plate Revenue

In fiscal years 1986-87 and 1987-88 the Centennial Office received \$232,670 and \$344,932, respectively, in revenue from centennial license plate sales. The office receives \$19.89 for every centennial plate sold by the counties. The State Treasurer's Office receives the cash from the counties. The information submitted to the State Treasurer's Office is a line item on county collection reports and does not include the number of plates sold.

Statistics compiled by the office list the number of plates sold by month for each county. The office determines the number of plates sold by dividing the total revenue recorded by the State Treasurer's Office by \$19.89. The office does not perform reasonableness tests on the amount of revenue it receives from the sales, so it has no assurance it receives all the revenue the office is entitled to. Because the amount of revenue involved is significant to Centennial Office operations, we believe the office should be performing tests to determine the reasonableness of the revenues collected by the counties. The office could obtain the number of plates issued by the Registrars' Bureau and year-end inventory information from the counties to determine the reasonableness of the amounts remitted.

In addition, the office uses the statistics on the number of plates sold by the counties as a means of granting money to counties for centennial activity. Each county receives \$5 for every centennial plate sold. Since the office uses the number of plates sold as a means of distributing money from the Centennial Office, it is important to ensure the accuracy of the information received from the counties.

RECOMMENDATION #3

We recommend the office perform reasonableness tests on license plate revenue collected from the counties to ensure the proper amount is collected.

CONTRACTED SERVICES

In December 1987, our office issued a performance audit report on state agency use of contracted services (87P-35). The report discussed concerns regarding management controls and agency use of contracted services in state government. The performance audit included tests of contracted services expenditures during fiscal year 1985-86 at the Governor's Office. Performance auditors noted a lack of written policies and procedures governing the use of contracted services at the Governor's Office.

During our audit at the Governor's Office we followed up on the performance audit issues. Governor's Office officials notified us that effective May 1988 they use the Governor's Management Memo 1-88-4-6 as a guideline for contracted services. We noted the following problems in our review of contracted services.

1. Audit Access

Language in House Bill 2, Laws of 1987, requires all contracts using money appropriated from the act contain a provision to allow access for legislative audit and fiscal analysis. The office entered into a contract in fiscal years 1986-87 and 1987-88 which did not contain a provision allowing audit access. Expenditures made under the contract were \$11,000 and \$4,000 for fiscal years 1986-87 and 1987-88, respectively. Agency personnel did not know why the contract lacked the required provision.

2. Workers Compensation

The Governor's Office Mental Disabilities Board of Visitors contracts with consultants for professional services. The contract states the Board will pay the premium to provide the consultants with workers' compensation insurance coverage. The Governor's Office has never received a bill or paid a premium to the Division of Workers' Compensation, which provides the coverage. Discussions with officials at the Division of Workers' Compensation indicate that in the future the Governor's Office will be billed a premium for coverage on these consultants.

3. Lack of Valid Written Contract

The Office of Budget Programming and Planning entered into a contract for a computer service in fiscal year 1987-88. The contract was prepared, but not signed by the contractor. Without a valid contract no documentation exists of the terms of the contract, including workers' compensation certification or exemption, possibly making the state liable for injuries. Support documentation stated the expenditure of \$14,500 was not to be paid without a contract. Agency personnel indicated that a written contract had been used in the past, and should have been completed.

RECOMMENDATION #4

We recommend the office ensure contracted service expenditures are administered in accordance with state law and policy.

STATE COMPLIANCE

During our audit we tested compliance with state laws and regulations related to the operations of the office. We noted instances where the office did not comply with provisions of state law. These instances are discussed in the following report sections.

Non-General Fund Money

House Bill 867, Laws of 1987, established an appropriation of \$300,000 in the Governor's Office General Fund for the supercollider task force. Language in the bill states that no money may be spent from the appropriation (General Fund) unless there has been at least a \$1 match from the public for every \$3 to be spent. A Special Revenue Fund (SRF) appropriation was established for matching funds in the amount of \$100,000. Donations totaling \$105,061 were received in fiscal year 1986-87 and recorded in the SRF.

As expenditures were incurred for the project the office applied three-fourths of all expenditures to the General Fund appropriation and the remaining one-fourth to the SRF appropriation. Total expenditures in fiscal year 1986-87 were \$271,288. Section 17-2-108, MCA, requires that all non-General Fund money be spent before General Fund money. At the end of fiscal year 1986-87, the SRF had \$37,239 of unobligated cash remaining in the account. This SRF money should have been spent prior to spending the General Fund money. We addressed a similar issue in a prior audit recommendation in which the office concurred.

During fiscal year 1987-88, the office continued to divide all expenditures between the General and SRF at the three-fourths to one-fourth rate. At the end of 1987-88 when the project was completed a cash balance of \$16,755 remained in the SRF which should have been spent prior to the General Fund money. House Bill 867 Section 1. (2) states that any balance of the \$300,000 appropriation remaining after June 1988 will revert to the General Fund. Thus an adjustment should have been recorded to decrease expenditures in the General Fund and increase expenditures in the SRF for the amount remaining in the SRF appropriation.

Office personnel indicated they interpreted the house bill language to read that for every \$3 spent out of the original appropriation \$1 had to be spent in

matching funds. The appropriation language did not restrict the amount of match money that could be spent, it only required at least a \$1 match for every \$3 of the General Fund appropriation to be spent. The office believes that since the \$16,755 was donated funds, it was not part of the appropriation and should not be reverted to the General Fund.

RECOMMENDATION #5

We recommend the office:

- 1. Use non-General Fund moneys wherever possible before using General Fund moneys.**
- 2. Record an adjustment to decrease prior year expenditures in the General Fund and increase prior year expenditures in the Special Revenue Fund for the amount remaining in the Special Revenue Fund appropriation.**

Centennial Products

The Centennial Office issued a license to an association of Montana car dealerships for the production and marketing of a centennial truck. The director of the association signed a standard application form used by the office which includes a provision that a copy of the product will be provided to the office. The office has not received a truck. In addition, section 30.3.103(6), Administrative Rules of Montana states "one copy of each product for which a license is issued must be deposited with the office and will become the permanent property of the state of Montana." Office personnel indicated they have not received a pack saddle and several other small products. The office is not applying the regulations on a consistent basis for all licensees. The office should either obtain a copy of all products, or change the regulations and application forms for all licensees to allow for flexibility.

RECOMMENDATION #6

We recommend the office obtain a copy of each centennial product, or change the regulations and application forms to allow for flexibility.

ACCOUNTING RECORDS

The department uses the Statewide Budgeting and Accounting System (SBAS) to record its financial activity. Section 17-1-102(4), MCA, indicates "all state agencies,. . . shall input all necessary transactions to the accounting system. . . before the accounts are closed at the end of the fiscal year in order to present the receipt, use and disposition of all money and property for which the agency is accountable for in accordance with generally accepted accounting principles (GAAP)."

We noted the following instances where transactions recorded on SBAS do not accurately reflect the financial activity of the office.

1. At the end of fiscal year 1985-86, a \$31,455 receivable existed in the internal service fund for amounts due from Department of Commerce for the statewide audit cost. During fiscal year 1986-87 the office changed the method used to bill agencies for the statewide audit. A journal voucher was prepared to eliminate the receivable, but instead doubled it. A subsequent journal voucher corrected the receivables, but incorrectly reduced current year revenue rather than a prior year revenue adjustment. As a result, prior year revenue adjustments are overstated and current year revenue is understated by \$62,910 in the internal service fund for fiscal year 1986-87.
2. While deferring federal assistance revenue at the end of fiscal year 1986-87, state and other Special Revenue Fund revenue was also deferred. Under the modified accrual basis of accounting, revenue should be recognized in the accounting period in which they become available and measurable. As a result, fiscal year 1986-87 revenue is understated by \$70,864 and fiscal year 1987-88 revenue is overstated by the same amount in the Special Revenue Fund.
3. In fiscal year 1987-88 the office mistakenly recorded a receivable and an adjustment to prior year revenue related to resource indemnity moneys. As a result, fiscal year 1987-88 revenue is overstated and prior year revenue adjustments are understated by \$20,935 in the Special Revenue Fund.

A timely review of SBAS could detect these types of errors. Office personnel cited human error as the reason for the incorrect transactions.

RECOMMENDATION #7

We recommend the office perform a timely review of SBAS reports to ensure the financial activity recorded on SBAS is in accordance with state law.

PAYMENT OF FIRE FIGHTING COSTS

The Department of State Lands requested a budget amendment of approximately \$11.4 million to pay the state share of the costs associated with the suppression of forest fires during the summer of 1988. The budget amendment was certified by the Governor's Office, as required by state law, and submitted through the Legislative Fiscal Analyst to the Legislative Finance Committee.

The committee expressed concerns as to whether the budget amendment process had been properly followed, yet the Governor still approved the amendment. The office established a state Special Revenue Fund account to receive the \$11.4 million from the state's General Fund. The transaction was intended by the Governor to be treated as a loan from the General Fund, to be repaid with funds from a supplemental appropriation. This transaction results in a "significant ascertainable commitment" for future General Fund support. Such commitments of General Fund support were not intended to be made through the budget amendment process. When the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient, a transfer of unrestricted moneys from other accounts may be authorized, provided that there is reasonable evidence that the income will be sufficient to restore the amount so transferred.

An Attorney General's Opinion, Volume No. 42, Opinion No. 123, ruled that the budget amendment process was not intended to permit a loan from the state's General Fund, where the only anticipated revenue for repayment is the possibility of a subsequent appropriation of funds from the General Fund. In addition, reliance on the possibility of a supplemental appropriation sometime in the future does not meet the reasonable-evidence-of-future-income requirement of the interaccount loan statute.

RECOMMENDATION #8

We recommend the office comply with state law regarding the use of the budget amendment process.

INDEPENDENT AUDITOR'S REPORT
AND OFFICE FINANCIAL SCHEDULES

SUMMARY OF INDEPENDENT AUDITOR'S REPORT

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented. The reader may rely on the fairness of the amounts presented in the financial schedules.

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the financial schedules of the Office of the Governor and Lieutenant Governor for each of the two fiscal years ended June 30, 1987 and 1988, as shown on pages 13 through 18. These financial schedules are the responsibility of the office's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, the office's financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to in paragraph one present fairly, in all material respects, the results of operations and changes in fund balances of the Office of the Governor and Lieutenant Governor for each of the two fiscal years ended June 30, 1987 and 1988, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

March 1, 1989

OFFICE OF THE GOVERNOR AND LIEUTENANT GOVERNOR
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1988

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Internal Service Funds</u>
FUND BALANCE: July 1, 1986	\$ <u>-0-</u>	\$ <u>1,369</u>	\$ <u>58,580</u>
ADDITIONS:			
<u>Fiscal Year 1986-87</u>			
Budgeted Revenue & Transfers In	368	937,426	
Prior Year Revenue Adjustments	30,158		28,383
Support From State of Montana	2,329,810		
Cash Transfers In		146,069	
Prior Year Revenue		3,305	
Prior Year Expenditure Adjustments		2,490	
Direct Entries to Fund Balance		7,065	
Nonbudgeted Revenue & Transfers In			(13,213)
 <u>Fiscal Year 1987-88</u>			
Budgeted Revenue & Transfers In	5,040	967,058	
Prior Year Revenue Adjustments	1,509		
Prior Year Expenditure Adjustments	385		
Prior Year Expenditures	72,706	24,245	
Support From State of Montana	2,073,328		
Cash Transfers In		<u>192,273</u>	
Total Additions	<u>4,513,304</u>	<u>2,279,931</u>	<u>15,170</u>
REDUCTIONS:			
<u>Fiscal Year 1986-87</u>			
Budgeted Expenditures & Transfers Out	2,357,604	733,842	73,750
Prior Year Expenditure Adjustments	2,733		
Prior Year Expenditures		3,305	
 <u>Fiscal Year 1987-88</u>			
Budgeted Expenditures & Transfers Out	2,152,967	769,938	
Direct Entries to Fund Balance		555	
Prior Year Expenditure Adjustments		480	
Prior Year Revenue Adjustments		<u>19,277</u>	
Total Reductions	<u>4,513,304</u>	<u>1,527,397</u>	<u>73,750</u>
FUND BALANCE: June 30, 1988	\$ <u>-0-</u>	\$ <u>753,903</u> ¹	\$ <u>-0-</u>

¹ The majority of increase in fund balance results from the Statehood Centennial Office moneys and the Environmental Contingency resource indemnity trust fund.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 and 18.

Fiscal
GENERA/
Estin
Actua
Colle
(Ur

SPECIA/
Estin
Actua
Colle
(Ur

Fiscal
GENERA/
Estin
Actua
Colle
(Ur

SPECIA/
Estin
Actua
Colle
(Ur

This si
schedu

OFFICE OF THE GOVERNOR AND LIEUTENANT GOVERNOR
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATED & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1988

	<u>Federal Indirect Cost Recoveries</u>	<u>Miscellaneous</u>	<u>Sale of Documents & Merchandise</u>	<u>Grants, Contracts, Donations</u>	<u>Other Financing Sources</u>	<u>Federal</u>	<u>Total</u>
<u>Fiscal Year 1987-88</u>							
GENERAL FUND							
Estimated Revenue	\$ 500	\$ 100					\$ 600
Actual Revenue	<u>0</u>	<u>5,040</u>					<u>5,040</u>
Collections Over (Under) Estimate	\$ <u>(500)</u>	\$ <u>4,940</u>					\$ <u>4,440</u>
SPECIAL REVENUE FUND							
Estimated Revenue		\$10,000	\$ 1,455,000	\$ 163,426	\$90,000	\$ 486,231	\$ 2,204,657
Actual Revenue		<u>56,228</u>	<u>350,561</u>	<u>149,960</u>	<u>84,613</u>	<u>325,696</u>	<u>967,058</u>
Collections Over (Under) Estimate		<u>\$46,228</u>	<u>\$ (1,104,439)</u>	<u>\$ (13,466)</u>	<u>\$ (5,387)</u>	<u>\$ (160,535)</u>	<u>\$ (1,237,599)</u>
<u>Fiscal Year 1986-87</u>							
GENERAL FUND							
Estimated Revenue	\$ 1,000	\$ 500					\$ 1,500
Actual Revenue	<u>0</u>	<u>368</u>					<u>368</u>
Collections Over (Under) Estimate	\$ <u>(1,000)</u>	\$ <u>(132)</u>					\$ <u>(1,132)</u>
SPECIAL REVENUE FUND							
Estimated Revenue		\$ 0	\$ 183,294	\$ 605,852		\$ 535,207	\$ 1,324,353
Actual Revenue		<u>6,725</u>	<u>246,348</u>	<u>260,752</u>		<u>423,601</u>	<u>937,426</u>
Collections Over (Under) Estimate		<u>\$ 6,725</u>	<u>\$ 63,054</u>	<u>\$ (345,100)</u>		<u>\$ (111,606)</u>	<u>\$ (386,927)</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 and 18.

PERSONA
Salar
Emple
Total

OPERATI
Contr
Suppl
Comm
Trave
Rent
Utili
Repa
Other
Total

EQUIPME
Equip
Intar
Total

TOTAL F

GENERAL
Budge
Actua
Unspe

SPECIAL
Budge
Actua
Unspe

OFFICE OF THE GOVERNOR AND LIEUTENANT GOVERNOR
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND - BUDGETED AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	Executive Office	Mansion Maintenance	Air Transportation	Office of Budget & Program Planning	Northwest Regional Power Act	Lt. Governor	Citizens Advocate Office	Mental Disabilities Board of Visitors	Statehood Centennial Office	Total
PERSONAL SERVICES										
Salaries	\$ 557,389	\$29,659	\$26,774	\$430,126	\$193,234	\$134,326	\$29,134	\$ 98,117	\$ 80,115	\$1,578,874
Employee Benefits	<u>105,239</u>	<u>6,265</u>	<u>6,850</u>	<u>81,113</u>	<u>32,623</u>	<u>25,534</u>	<u>3,799</u>	<u>21,265</u>	<u>15,115</u>	<u>297,803</u>
Total	<u>662,628</u>	<u>35,924</u>	<u>33,624</u>	<u>511,239</u>	<u>225,857</u>	<u>159,860</u>	<u>32,933</u>	<u>119,382</u>	<u>95,230</u>	<u>1,876,677</u>
OPERATING EXPENSES										
Contracted Services	238,424	714	4,671	57,431	1,720	3,443		20,376	31,966	358,745
Supplies & Materials	12,352	12,873	19,125	5,408	1,350	2,247		5,778	60,291	119,424
Communications	42,876	1,970	969	10,491	6,990	6,367	17,984	4,933	11,439	104,019
Travel	81,354		8,158	6,124	48,396	8,656		17,026	15,103	184,817
Rent	41,156		20	19,142	7,946	5,316		1,320	90	74,990
Utilities		5,218								5,218
Repair & Maintenance	6,209	580	23,509	2,721	1,578	2,613		1,136		38,346
Other Expenses	<u>80,275</u>	<u>87</u>	<u>631</u>	<u>5,773</u>	<u>9,708</u>	<u>1,857</u>		<u>1,344</u>	<u>2,152</u>	<u>101,827</u>
Total	<u>502,646</u>	<u>21,442</u>	<u>57,083</u>	<u>107,090</u>	<u>77,688</u>	<u>30,499</u>	<u>17,984</u>	<u>51,913</u>	<u>121,041</u>	<u>987,386</u>
EQUIPMENT AND INTANGIBLE ASSETS										
Equipment	10,351			30,299	22	993		3,570	6,278	51,513
Intangible Assets	<u>905</u>			<u>5,236</u>		<u>314</u>		<u>487</u>	<u>387</u>	<u>7,329</u>
Total	<u>11,256</u>			<u>35,535</u>	<u>22</u>	<u>1,307</u>		<u>4,057</u>	<u>6,665</u>	<u>58,842</u>
TOTAL PROGRAM EXPENDITURES	<u>\$1,176,530</u>	<u>\$57,366</u>	<u>\$90,707</u>	<u>\$653,864</u>	<u>\$303,567</u>	<u>\$191,666</u>	<u>\$50,917</u>	<u>\$175,352</u>	<u>\$ 222,936</u>	<u>\$2,922,905</u>
GENERAL FUND										
Budgeted	\$1,123,409	\$60,639	\$95,748	\$676,417		\$201,238	\$51,377	\$129,279		\$2,338,107
Actual	<u>979,194</u>	<u>57,366</u>	<u>90,707</u>	<u>653,864</u>		<u>191,666</u>	<u>50,917</u>	<u>129,253</u>		<u>2,152,967</u>
Unspent Budget Authority	<u>\$ 144,215</u>	<u>\$ 3,273</u>	<u>\$ 5,041</u>	<u>\$ 22,553</u>		<u>\$ 9,572</u>	<u>\$ 460</u>	<u>\$ 26</u>		<u>\$ 185,140</u>
SPECIAL REVENUE FUND										
Budgeted	\$ 376,031				\$317,038			\$ 65,833	\$1,738,220	\$2,497,122
Actual	<u>197,336</u>				<u>303,567</u>			<u>46,099</u>	<u>222,936</u>	<u>769,938</u>
Unspent Budget Authority	<u>\$ 178,695</u>				<u>\$ 13,471</u>			<u>\$ 19,734</u>	<u>\$1,515,284</u>	<u>\$1,727,184</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 and 18.

PERSONAL
Salari
Employ
Total

OPERATIN
Contra
Suppli
Commun
Travel
Rent
Utilit
Repair
Other
Total

EQUIPMEN
Equipm
Intang
Total

TOTAL PR

GENERAL
Budget
Actual
Unspen

SPECIAL
Budget
Actual
Unspen

INTERNAL
Budget
Actual
Unspen

OFFICE OF THE GOVERNOR AND LIEUTENANT GOVERNOR
 SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND - BUDGETED AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	Executive Office	Mansion Maintenance	Air Transportation	Office of Budget & Program Planning	Northwest Regional Power Act	Lt. Governor	Citizens Advocate Office	Mental Disabilities Board of Visitors	Statehood Centennial Office	Total
PERSONAL SERVICES										
Salaries	\$ 634,543	\$30,362	\$ 26,343	\$433,528	\$219,755	\$158,024	\$29,023	\$ 75,954	\$ 18,088	\$1,625,620
Employee Benefits	<u>115,123</u>	<u>6,158</u>	<u>6,605</u>	<u>74,073</u>	<u>33,612</u>	<u>31,041</u>	<u>3,684</u>	<u>16,484</u>	<u>3,977</u>	<u>290,757</u>
Total	<u>749,666</u>	<u>36,520</u>	<u>32,948</u>	<u>507,601</u>	<u>253,367</u>	<u>189,065</u>	<u>32,707</u>	<u>92,438</u>	<u>22,065</u>	<u>1,916,377</u>
OPERATING EXPENSES										
Contracted Services	444,294	1,273	6,461	173,447	26,845	3,021		9,740	19,010	684,091
Supplies & Materials	6,595	13,996	15,616	2,646	2,976	942		1,405	1,103	45,279
Communications	42,440	2,195	1,171	11,627	7,942	6,226	15,726	4,782	7,282	99,391
Travel	52,465		3,226	2,853	62,162	8,333		10,378	4,052	143,469
Rent	40,530	184		18,959	7,920	5,226		1,596	40	74,455
Utilities		5,021								5,021
Repair & Maintenance	8,043	277	32,826	6,670	1,911	1,774	70	688	78	52,337
Other Expenses	<u>78,597</u>	<u>584</u>	<u></u>	<u>4,212</u>	<u>3,597</u>	<u>1,539</u>	<u>244</u>	<u>961</u>	<u>4,984</u>	<u>94,718</u>
Total	<u>672,964</u>	<u>23,530</u>	<u>59,300</u>	<u>220,414</u>	<u>113,353</u>	<u>27,061</u>	<u>16,040</u>	<u>29,550</u>	<u>36,549</u>	<u>1,198,761</u>
EQUIPMENT AND INTANGIBLE ASSETS										
Equipment	10,638			14,746	6,836	4,814		7,973	122	45,129
Intangible Assets	<u>934</u>			<u>2,920</u>	<u>708</u>	<u>175</u>		<u>192</u>		<u>4,929</u>
Total	<u>11,572</u>			<u>17,666</u>	<u>7,544</u>	<u>4,989</u>		<u>8,165</u>	<u>122</u>	<u>50,058</u>
TOTAL PROGRAM EXPENDITURES	<u>\$1,434,202</u>	<u>\$60,050</u>	<u>\$ 92,248</u>	<u>\$745,681</u>	<u>\$374,264</u>	<u>\$221,115</u>	<u>\$48,747</u>	<u>\$130,153</u>	<u>\$ 58,736</u>	<u>\$3,165,196</u>
GENERAL FUND										
Budgeted	\$1,268,783	\$62,705	\$103,790	\$675,296		\$224,024	\$49,533	\$121,278		\$2,505,409
Actual	<u>1,142,537</u>	<u>60,050</u>	<u>92,248</u>	<u>671,931</u>		<u>221,115</u>	<u>48,747</u>	<u>120,976</u>		<u>2,357,604</u>
Unspent Budget Authority	<u>\$ 126,246</u>	<u>\$ 2,655</u>	<u>\$ 11,542</u>	<u>\$ 3,364</u>		<u>\$ 2,909</u>	<u>\$ 786</u>	<u>\$ 302</u>		<u>\$ 147,805</u>
SPECIAL REVENUE FUND										
Budgeted	\$ 603,994				\$459,344			\$ 75,000	\$189,069	\$1,327,407
Actual	<u>291,665</u>				<u>374,264</u>			<u>9,177</u>	<u>58,736</u>	<u>733,842</u>
Unspent Budget Authority	<u>\$ 312,329</u>				<u>\$ 85,080</u>			<u>\$ 65,823</u>	<u>\$130,333</u>	<u>\$ 593,565</u>
INTERNAL SERVICE FUND										
Budgeted				\$ 73,750						\$ 73,750
Actual				<u>73,750</u>						<u>73,750</u>
Unspent Budget Authority				<u>\$ 0</u>						<u>\$ 0</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 17 and 18.

OFFICE OF THE GOVERNOR AND LIEUTENANT GOVERNOR

NOTES TO THE FINANCIAL SCHEDULES

JUNE 30, 1987 AND 1988

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Office of the Governor and Lieutenant Governor uses the modified accrual basis of accounting for its General and Special Revenue Funds and the full accrual basis for its Internal Service Fund. Both are described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which a purchase order has been issued.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.
- Obligations for employees' vested annual leave and sick leave are recorded as expenditures when paid.

Revenue in governmental funds may be recognized when the amount is measurable and available to meet expenditures of the current fiscal period. Internal Service Fund revenue may be recognized in the period earned.

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the office:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The majority of

activity recorded in this fund is related to Northwest Regional Power Act, State Centennial Office, and federal assistance.

Internal Service - accounts for the financing of goods or services provided by one department or agency to other departments or agencies of the government unit. For fiscal years 1985-86 and 1986-87 the Governor's Office used an internal service fund for allocating and collecting the costs of the statewide audit as designated by the 1985 Legislative Session. During the end of fiscal year 1986-87 the fund was closed out and amounts remaining were setup as a payable to the General Fund. During the fiscal year 1987-88 the amount was transferred to the General Fund.

2. VACATION AND SICK LEAVE

Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the Office of the Governor and Lieutenant Governor. Expenditures for termination pay currently are absorbed in the annual operational costs of the office. At June 30, 1988, the office had a liability of \$137,994 for vacation leave and \$62,892 for sick leave.

3. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The office contributed \$81,479.02 and \$84,877.66 to the plan in fiscal years 1986-87 and 1987-88, respectively.

4. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency basis the General Fund beginning and ending fund balance will always be zero.

AGENCY RESPONSE

State of Montana
Office of the Governor
Helena, Montana 59620
406-444-3111

RECEIVED

MAY 3 1989

Montana Legislative Auditor

STAN STEPHENS
GOVERNOR

May 3, 1989

Mr. Scott A. Seacat, Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59620

Dear Mr. Seacat:

Following are our responses to the recommendations contained in your audit of the Office of the Governor and Lieutenant Governor.

1. Recommendation #1. We recommend the office:
 - A. Establish procedures to restrictively endorse checks at the time of initial receipt.
 - B. Deposit cash on a timely basis.
 - C. Maintain adequate segregation of duties over cash.

Response: We concur with the recommendation. The Centennial Office became aware of this problem during discussions with the auditors, and immediately restructured its cash control procedures. Although the staffing level of the Office does not allow for complete segregation of duties, the person responsible for recording quarterly royalty payments no longer has access to the cash. A receipt log is now being maintained to record cash when it is initially received. The Office endorses checks upon receipt, and makes deposits in compliance with MOM Section 2-1210.20.

2. Recommendation #2. We recommend the office:
 - A. Establish procedures to ensure licensees report all sales on a timely basis.
 - B. Establish procedures to ensure all royalty revenue due the Centennial Office is collected.
 - C. Document the system used to account for the royalty sales information.

Response: We concur with the recommendation.

- A. The Office has already instituted a check-off system

that identifies overdue royalty reports. Office personnel will make follow-up calls to delinquent licensees to obtain required reports.

- B. The Office does not have sufficient personnel to perform audits of licensee records. However, Senate Bill 439, introduced in the 1989 session and signed by the Governor on March 29, 1989, does allow future access to these records by the Legislative Auditor, the Office, and other state officials.
 - C. The Office has abandoned the computer program referenced in the audit. Licensee reports are verified manually, and historical information is stored on a computer using a commercial spreadsheet program.
3. Recommendation #3. We recommend the office perform reasonableness tests on license plate revenue collected from the counties to ensure the proper amount is collected.

Response: Partially concur. County treasurers' offices are audited at least every two years either by the Department of Commerce Local Government Services Division or by independent CPA firms. These audits examine the counties' internal control systems, especially in the area of motor vehicle registrations. We will rely on these audits to ensure county compliance. However, the Office will, on a regular basis, notify Local Government Services of any apparent discrepancies in the county deposits; they have agreed to follow up on these discrepancies.

Given the regular audit cycle for the counties, and the limited staff of the Centennial Office, we do not believe it would be productive for the Office to perform extensive year-end reconciliations as suggested in the audit.

4. Recommendation #4. We recommend the office ensure contracted service expenditures are administered in accordance with state law and policy.

Response: We concur. The Office does use Management Memo I-88-4-6 as a guideline for contracted services, and we do not believe that one contract lacking an audit provision shows disregard for that policy. Central review of contract payments, due to be re-established July 1, should alleviate future problems.

5. Recommendation #5. We recommend the office:
- 1. Use non-General Fund moneys wherever possible before using General Fund moneys.
 - 2. Record an adjustment to decrease prior year expenditures in the General Fund and increase prior year expenditures in the Special Revenue Fund for the amount remaining in the Special Revenue Fund appropriation.

Response: We concur with the recommendation. The remainder

of the Supercollider private funds were contained in the general appropriation bill as an appropriation from the Special Revenue Fund to the Department of Commerce. The Office sought an amendment to House Bill 100 to allow these funds to be reverted to the General Fund. As the amendment was approved, the funds will be reverted as recommended in the audit report.

6. Recommendation #6. We recommend the office obtain a copy of each centennial product, or change the regulations and application forms to allow for flexibility.

Response: As no products will be licensed by the Centennial after April 15, 1989, we do not believe it feasible to change regulations or application forms at this time. The Office will, instead, attempt to obtain copies of each centennial product.

7. Recommendation #7. We recommend the office perform a timely review of SBAS reports to ensure the financial activity recorded on SBAS is in accordance with state law.

Response: We concur. Producing error-free financial reports is certainly a worthy goal. However, because of extreme time constraints imposed on a limited number of agency personnel (1) during the Fiscal Year End Adjustment period, it was unlikely to expect that human error could be completely eliminated from this process.

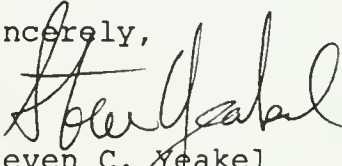
The 1989 Legislature has approved additional staff for the Governor's Office Centralized Services function effective July 1, 1989; this should further reduce the possibility of any errors.

8. Recommendation #8. We recommend the office comply with state law regarding the use of the budget amendment process.

Response: We concur and will comply.

The Offices of the Governor and Lieutenant Governor appreciate the assistance given by your Office and staff, and by your willingness to work with office personnel. Your recommendations will assist the Office to improve its accounting system and its compliance with state laws and regulations.

Sincerely,



Steven C. Yeakel
Chief of Staff



